

Message Text

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ACTION EA-10

INFO OCT-01 ISO-00 SP-02 AID-05 EB-07 NSC-05 RSC-01

CIEP-01 TRSE-00 SS-15 STR-01 OMB-01 CEA-01 CIAE-00

COME-00 FRB-01 INR-05 NSAE-00 XMB-02 OPIC-03 LAB-04

SIL-01 AGR-05 DODE-00 PA-01 USIA-06 PRS-01 SWF-01

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R 240951Z DEC 74

FM AMEMBASSY MANILA

TO SECSTATE WASHDC 9385

C O N F I D E N T I A L MANILA 15088

E.O. 11652: GDS

TAGS: ETRD, EAGR, RP

SUBJECT: COTTON CONTRACTS

REF: A. MANILA 14861 (TOFAS 140)

B. STATE 274659

SUMMARY. PROBLEM OF OVERDUE COTTON CONTRACTS DISCUSSED WITH FINANCE SECRETARY VIRATA BY ECON/COMMERCIAL COUNSELOR, ALVARADO IN DFA BY COMATT, AND DBP OFFICIALS BY AGATT. TALKING PAPER LEFT WITH GOP OFFICIALS SUGGESTED MEANS WHEREBY GOP COULD ASSIST COTTON MILLS IN MEETING CURRENT FINANCIAL DIFFICULTIES AND IN OPENING OVERDUE LETTERS OF CREDIT FOR U.S. COTTON. EMBASSY WILL CONTINUE TO FOLLOW UP WITH GOP OFFICIALS. END SUMMARY.

1. IN DISCUSSION DECEMBER 23 WITH FINANCE SECRETARY VIRATA, ECON/COMMERCIAL COUNSELOR REVIEWED PROBLEM OF OVERDUE LETTERS OF CREDIT FOR U.S. COTTON AND SUGGESTED SOME POSITIVE ACTIONS BYGOP TO EASE FINANCIAL BURDENS OF TEXTILE INDUSTRY AND THUS FACILITATE OPENING OF LETTERS OF CREDIT. WE SPECIFICALLY PROPOSED THAT GOP
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EXTEND FULL THREE YEAR CCL CREDITS AT 10 PERCENT INTEREST

TO MILLS, VICE CURRENT ONE-YEAR TERM AT CCC RATE PLUS TWO AND HALF PERCENT DBP GUARANTEE FEE; WE FURTHER SUGGESTED GOP WAIVE IMPORT DUTY OF 10 PERCENT OF 110 PERCENT OF FOB VALUE AND SALES TAX OF 7 PERCENT OF 125 PERCENT OF C&F VALUE. IMPORT DUTY AND SALES TAX ADD AN ESTIMATED 20 PERCENT TO LANDED VALUE OF COTTON.

2. VIRATA INDICATED THAT HE WOULD REVIEW PROBLEM WITH DBP AND ASKED THAT EMBASSY ALSO DISCUSS IT FURTHER WITH BANK. THIS HAS BEEN PURSUED AND WILL BE FOLLOWED UP, BUT IT IS DIFFICULT TO SAY AT THIS TIME WHAT SPECIFIC RESPONSE GOP WILL TAKE REGARDING OUR SUGGESTIONS. IT IS CLEAR, HOWEVER, THAT FINANCE SECRETARY WAS NOT ENTHUSIASTIC ABOUT PROSPECTS OF LOSING SUBSTANTIAL REVENUE FROM WAIVER OF IMPORT DUTY AND SALES TAX. CONSIDERING IMPORTANCE OF TEXTILE INDUSTRY IN TERMS OF EMPLOYMENT, GOP IS LIKELY TO BE SYMPATHETIC TO CURRENT PROBLEMS OF INDUSTRY BUT IT IS TOO EARLY TO SAY WHAT ADDITIONAL OR OTHER STEPS GOP MAY TAKE TO ALLEVIATE PROBLEMS. EMBASSY WILL CONCENTRATE ON EXTENSION OF FULL BENEFITS OF CCC CREDIT AS ONE MEANS OF PRESSURING GOP TO HAVE MILL SOPEN LETTERS OF CREDIT.

3. TALKING PAPER INCORPORATING ABOVE POINTS WAS LEFT WITH VIRATA. COMATT AND AGATT MADE SIMILAR APPROACHES TO DFA AND DBP, ALSO LEAVING SAME PAPER. BOTH POINTED OUT THAT CURRENT PROBLEM MEANS THAT U.S. TRADERS WHO WERE SQUEEAED IN MARKET OF RISING PRICES TO HONOR THEIR CONTRACTS A YEAR OR TWO AGO, ARE NOW BEING SQUEEZED BY SAME MILLS WHICH HAD MADE SUBSTANTIAL PROFITS THEN BUT WHICH ARE NOT NOW OPENING LETTERS OF CREDITS.

4. EMBASSY WILL FOLLOW UP WITH FINANCE, DBP, AND DFA BUT GIVEN THE HOLIDAY SITUATION IN THE PHILIPPINES IT IS DOUBTFUL POSITIVE GOP RESPONSE OR ACTION WOULD BE FORTHCOMING UNTIL AFTER THE NEW YEAR WEEKEND. IN MEANTIME, DEPARTMENT IS AWARE THAT TEXTILE INDUSTRY IS FACING CONSIDERABLE FINANCIAL DIFFICULTY BROUGHT ABOUT MAINLY BY SHARPLY REDUCED DOMESTIC DEMAND. MILL OUTPUT, SINCE SEPTEMBER, HAS REPORTEDLY BEEN AT ABOUT 70 PERCENT

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OF THE AVERAGE OF PAST THREE YEARS. STOCKS OF COTTON CONTINUES AT RECORD LEVELS AND THOSE OF FINISHED TEXTILES DOUBLE NORMAL LE
AIZF#
PYWLQEAYS STRONG COMPETITION
FROM MAN-MADE FIBERS. INDUSTRY OFFICIALS SEE LITTLE IMPROVEMENT IN OUTPUT BEFORE OCTOBER-NOVEMBER 1975. THIS ACCOUNTS IN LARGE PART FOR LOW LEVEL OF ACTIVITY

IN OPENING OF L/C'S FOR CCC COTTON, AND OUR SUGGESTIONS
TO VIRATA ET AL ARE INTENDED TO MEET THIS OBSTACLE.

5. REGARDING LIRAG AND YUPANGCO, BOTH FIRMS HAD LARGE
STOCKS ON AUGUST 31. LIRAG ALSO IMPORTED 3,877 BALES
DURING SEPTEMBER AND NOVEMBER USING FREE DOLLARS BEFORE
THEY WERE SHUT OFF IN MID-AUGUST 1974 IN FAVOR OF CCC
CREDIT. NO IMPORTS WERE RECORDED BY YUPANGCO DURING
AUGUST-NOVEMBER 1974 SO THEY WILL LIKELY HAVE TO BEGIN
OPENING L/C'S SOON. ALL OF YUPANGCO'S OVERDUE L/C'S
ARE WITH ONE SHIPPER WITH WHOM YUPANGCO HAS A QUALITY
COMPALINT THAT HAS NOT YET BEEN RESOLVED. HOWEVER,
DBP HAS STATED THAT IF YUPANGCO WANTS COTTON, IT WILL
HAVE TO HONOR ITS CONTRACTUAL OBLIGATIONS.
SULLIVAN

NOTE BY OC/T: #AS RECEIVED.

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